

The Impact of Work Arrangements on Financial Challenges



Commonwealth believes that society is stronger and more prosperous when everyone has financial security and opportunity, and employment is a primary avenue of opportunity. Work is about the money that can be earned but work also affects one's sense of self and place in society.

For many people, the nature of work is in flux. All indications are that the Traditional full-time job with one employer will continue to become less common as other work arrangements flourish. Those Non-Traditional alternatives are themselves evolving rapidly. To increase knowledge about how these changes are being experienced by the financially vulnerable (annual household income under \$55,000), Commonwealth conducted a review of current research and then engaged with over a thousand workers nationwide through a survey, in-depth interviews, focus groups, and online. By giving voice to lower-wage people living the changing nature of work, we learn better how to support them in building their financial security and opportunity.

One of the challenges of doing this research is definitional. Given the ongoing changes in the types of work arrangements, how do we define the different types of work arrangements and what terminology do we use to describe them? In this paper, we have chosen to identify 3 broad categories: Freelancers, Traditional, and Non-Traditional, which includes people who work at temp agencies, gig platforms, and are sub-contracted workers. For a full definition of these categories please read "The Impact of Work Arrangements on Worker Identity."

This is one of four briefs highlighting key findings. Two research papers detail methodologies and additional findings. Individual quotes and stories employ pseudonyms.

In our research on the changing nature of work for financially vulnerable workers, we explored the impact of their work arrangements on their financial challenges. We found that there are unique financial challenges and advantages specific to Traditional and Non-Traditional work. However, lower-wage workers face many of the same long-standing financial challenges regardless of the type of work arrangement.

Given the on-going evolution of work arrangements, one of the challenges of doing this research is definitional – how do we define the different types of work arrangements and what do we call them. For this project, based on a review of the literature and a detailed analysis of nationwide survey findings, we have identified 3 broad categories (Traditional, Non-Traditional and Freelancers) and 5 sub-categories of workers (Typical Traditional, Atypical Traditional, Atypical Non-Traditional, Typical Non-Traditional, and Freelancers). The Non-Traditional categories include people who self-identified as working at temp agencies, gig platforms, and sub-contracted (working for an agency that does specific work for other companies). The literature identifies certain work attributes, such as receiving a W-2, access to health and retirement benefits, having one main employer, guaranteed hours, etc, that are associated with Traditional work. The sub-categories we suggest below are based on the number of these work attributes respondents experienced at their primary workplace. (For a full explanation of this methodology, please read "Research Paper: Nationwide Survey" and "The Impact of Work Arrangements on Worker Identity.")

Traditional		Non-Traditional		Freelancers
Typical Traditional	Atypical Traditional	Atypical Non-Traditional (mostly sub-contracted, some temp, gig)	Typical Non-Traditional (mostly gig, temp and some sub-contracted)	Freelancers
High Attributes	Low Attributes	Moderate Attributes	Low Attributes	Low Attributes

What financial challenges do all workers face?

Our nationwide survey of workers with household incomes under \$55,000 confirmed that they face multiple financial challenges. Overall, 75% of workers – whether in Traditional or Non-Traditional arrangements – said they were currently struggling or just getting by financially.

Access to health and retirement benefits was a common financial challenge. Even amongst Typical Traditional workers, 38% reported that they did not have access to these benefits. For other workers lack of access ranged from 69% for Atypical Non-Traditional workers, 92% for Atypical Traditional, and 99% for Freelancers. Not surprisingly, all workers reported that they struggled to save for retirement and pay for medical expenses: 26% of workers reported no plans to start saving for retirement and 32% of workers had skipped a medical treatment in the prior 12 months because they could not afford it.



Saving for emergencies was another struggle these workers shared. The largest emergency expense they could cover was less than \$100, regardless of work arrangement. Surprisingly, 9 out of 10 workers in all our categories said they were sometimes not paid on time.

What are the different financial challenges that workers face?

Certain aspects of lower-wage workers' financial lives did differ based on their work arrangements: income volatility, hours elasticity, use of checking/savings accounts, and taxes.

Income Volatility

Although all workers in our survey reported income volatility – from 29% for Atypical Traditional Workers to 68% for Atypical Non-Traditional workers – it was significantly greater among all types of Non-Traditional workers. Moreover, 20% of Typical Non-Traditional workers reported both income volatility and unpredictable income levels. The working hours of many Non-Traditional workers depend on the demand for their services, which can fluctuate widely. Because they typically cannot influence this demand, they cannot predict their income. We also heard that this fluctuation in demand for their services affected their ability to control their work hours. For instance, Laura, a gig driver from Massachusetts, shared that she cannot go out anymore on Friday and Saturday nights because that is when she can make the most money.

Hours Elasticity

Although most Non-Traditional workers do not have steady or predictable income streams, the flexibility of Non-Traditional work can make it easier to work the number of hours they want. For instance, if an emergency arises, a Non-Traditional worker can stop working to address the issue and then work more in the future. Drew, a freelance construction worker in Alabama, appreciated that he could tend to his wife's medical issues when needed and still find enough work online to continue making a decent income.

“The flexibility of non-traditional work can make it easier to work the number of hours [workers] want.”

Traditional workers, although more likely to have steady and predictable incomes, cannot as readily shift the number or timing of hours they work. Atypical Traditional workers were significantly more likely to report working more hours than they wanted, at 32% compared to just 17% of all Non-Traditional workers.

Use of checking/savings accounts

In our nationwide survey, we asked workers if they used checking/savings accounts to handle day-to-day finances. Significantly more Typical Traditional workers did, at 94%. Typical Non-Traditional workers reported the least use of these accounts, at only 56%, and were significantly more likely to use alternative financial services, at 19%, than Typical Traditional workers, at only 9%.

Taxes

The survey asked workers about specific worries associated with taxes: owing money at tax time; filling out tax forms correctly; having the correct receipts and paperwork needed for filing; and knowing when and how frequently to make payments. Atypical Non-Traditional workers were significantly more likely to be worried about taxes than all other workers. However, the group second most likely to report being worried about taxes, and at significantly higher levels, were the Typical Traditional workers. This was surprising because prior research suggested that the opposite would be true – namely, that all Non-Traditional workers would have more tax related stress.

We also asked respondents to rate from 1 (Not all true) to 4 (Very true) the statement: “I am confused about how my taxes worked.” Atypical Non-Traditional workers were the most confused by their taxes with a mean score of 2.47, which might explain why they are the most worried. However, Typical Traditional workers and Freelancers were the least confused about their taxes with mean scores respectively of 2.05 and 1.97. We also asked respondents if they worried about paying for tax filing services. Nearly a third (31%) of Typical Traditional workers were worried about being able to pay for filing their taxes, significantly higher than any other group. This is an area that requires additional research to fully understand the implications.



One hypothesis, based on our conversations with workers, is that Typical Non-Traditional workers become actively aware of their tax obligations, often following a challenging transition to the tax requirements of these work arrangements. Brian, a Freelancer from Pennsylvania, shared that he developed a system he uses throughout the year: “I’ve got it under control.” Lisa, a gig worker from Nevada, researched what she needed to know about taxes before she started doing the work, taking advantage of online social media groups. For Typical Traditional workers, having their taxes automatically deducted by their employers may make them less actively aware of their tax obligations and therefore more worried about them.

What are some implications?

For solutions to have the most impact, they should focus on addressing the financial challenges all lower-wage workers face – insufficient income, limited access to benefits, and inadequate emergency savings. These issues are not new and persist despite the changing nature of work. Recent attention to the changing nature of work should not distract from developing innovative new approaches to addressing these tenacious challenges faced by all lower-wage workers.

Nevertheless, there are some financial challenges with a significant impact on workers’ lives that require customized solutions. Non-Traditional workers need help mitigating the impact of low-demand periods. Traditional workers need solutions to quickly access funds or more easily adjust their schedules to address immediate financial concerns. These approaches should capitalize on the income-related advantages of each work arrangement – income stability for Traditional workers and income flexibility for Non-Traditional workers. Customized solutions could support lower-wage workers managing the specific challenges of their complex financial lives.

“For solutions to have the most impact, they should focus on addressing the financial challenges all lower-wage workers face.”

Although our finding that Typical Traditional workers worry more about taxes seems counterintuitive, it was validated through multiple lines of research. Further study is needed to understand this better. Examples of areas to investigate include:

- The aspects of managing taxes that Traditional workers find more challenging than Non-Traditional workers (and vice versa);
- The systems Traditional and Non-Traditional workers use to manage their taxes;
- Whether the nature of taxes for Traditional workers encourages passivity that leads to worry; and
- The significance of Non-Traditional workers being “organizations of one” that must actively manage all aspects of their work, including taxes.

Uncovering insights on these topics will provide a clearer understanding of these workers’ challenges and can lead to more informed solutions that directly address their tax-related needs.

Limitations

We acknowledge that our findings are affected by how we did the research. The findings do not account for all variables of potential significance. The accompanying research papers provide additional background on project limitations.

This project was funded by The Rockefeller Foundation and The MasterCard Center for Inclusive Growth. The views and opinions expressed in the report are those of the authors and do not reflect their views and opinions.

